

PROPOSED CHARGING LETTER

Jeffrey A. Graves
President, Chief Executive Officer, and Director
3D Systems Corporation
333 Three D Systems Circle
Rock Hill, SC 29730

Re: Alleged Violations of the Arms Export Control Act and the
International Traffic in Arms Regulations by 3D Systems Corporation

Dear Mr. Graves:

The Department of State (Department) charges 3D Systems Corporation, including its operating divisions, subsidiaries, and business units (collectively “3D Systems” or “Respondent” or the “Company”), with violations of the Arms Export Control Act (AECA) (22 U.S.C. 2751 *et seq.*) and the International Traffic in Arms Regulations (ITAR) (22 C.F.R. Parts 120-130) in connection with unauthorized exports of technical data to various countries, including a proscribed destination. A total of 132 violations are alleged at this time.

The essential facts constituting the alleged violations are described herein. The Department reserves the right to amend this proposed charging letter, including through a revision to incorporate additional charges stemming from the same misconduct of Respondent. Please be advised that this proposed charging letter, pursuant to 22 C.F.R. § 128.3, provides notice of our intent to impose debarment or civil penalties or both in accordance with 22 C.F.R. §§ 127.7 and 127.10.

When determining the violations to pursue in this matter, the Department considered several aggravating factors, including: (a) certain violations involving unauthorized exports to the People’s Republic of China (PRC), which is a proscribed destination listed in ITAR § 126.1; (b) Respondent disclosed the violations to the Department only after the U.S. Government alerted Respondent of violations of the Export Administration Regulations involving exports to the PRC; (c) the violations and surrounding circumstances demonstrate Respondent’s disregard for the requirements of the ITAR and for Respondent’s export compliance responsibilities; (d) many of the violations are unrelated in that they do not arise from a single export transaction; (e) prior to the sale of its on-demand manufacturing (ODM) business unit, which included 3D Systems’ subsidiary,

Quickparts.com, Inc. (Quickparts), Respondent exported as a regular part of the Quickparts business but lacked a formal compliance program to prevent ITAR violations; (f) senior management may have been aware of some of the conduct described herein; and (g) Respondent continued to export technical data to a proscribed destination after the discovery of the violations.

The Department also considered mitigating factors. Most notably: (a) Respondent cooperated with the Department's review of the potential violations, including by expanding the scope of its internal investigation of Quickparts' handling of export control data, which resulted in three disclosures that acknowledged the charged conduct after the U.S. Government discovered and alerted Respondent of the potential violations; (b) Respondent implemented certain remedial compliance measures in an effort to prevent future similar violations; and (c) Respondent cooperated with the Department and entered into agreements with the Directorate of Defense Trade Controls (DDTC) tolling the statutory period that applies to enforcement of the AECA and the ITAR.

This proposed charging letter describes certain alleged violations for the time period from December 9, 2015, to September 28, 2018.

JURISDICTION

3D Systems is a corporation organized under the laws of the State of Delaware. Respondent is a U.S. person within the meaning of ITAR § 120.62 and Respondent is subject to the jurisdiction of the United States.

During the period covered by the violations set forth herein, 3D Systems was engaged in the manufacture and export of defense articles and was registered with DDTC as a manufacturer and exporter, in accordance with § 38 of the AECA and § 122.1 of the ITAR.

Quickparts was a subsidiary of 3D Systems from February 2011 to September 2021, and part of 3D Systems' ODM business unit that engaged in the manufacture and export of defense articles. Quickparts maintained facilities in multiple locations, including Lawrenceburg, Tennessee and Seattle, Washington and regularly exported technical data for quotation and manufacture. In September 2021, after the time period of the conduct at issue in this charging letter, 3D Systems sold ODM to Trilantic Capital Partners North America.

The described violations relate to technical data controlled under Categories IV(i), VII(h), VIII(i), XII(f), and XIII(l) of the U.S. Munitions List (USML), § 121.1 of the ITAR, at the time the violations occurred.

BACKGROUND

3D Systems is a provider of 3D printing technology and services with locations and subsidiaries across the world, including the PRC. 3D Systems serves corporate and government customers across a wide range of industries, including in aerospace and defense. 3D Systems currently sells 3D printers and manufactures certain parts using 3D printers. Quickparts provided prototypes and low-volume production parts using traditional computer numerical control (CNC) machining, cast urethane modeling, and injection molding services. Quickparts regularly exported customer data primarily to third-party suppliers abroad, including in the PRC, for quotation and potential production.

3D Systems exported ITAR-controlled technical data without authorization dating back to 2012. Until 2017, 3D Systems did not have a formal export compliance program and did not have an employee whose primary job responsibility was export compliance. Additionally, 3D Systems did not maintain comprehensive written export compliance procedures or provide export compliance training for all appropriate personnel who were involved in ITAR-controlled activities. 3D Systems only began implementing a formal export compliance program and hiring dedicated personnel to manage its export compliance program in July 2017 after the U.S. government notified it of potential export control violations.

3D Systems had a limited awareness of its obligations under the ITAR as an exporter and of ITAR-related activities within its business. 3D Systems lacked the training and awareness that would have led them to devote more resources to ITAR compliance and to fully understand the export control risks facing the Company. As a result, 3D Systems did not appreciate the risk involved when acquiring new entities or the need to implement a comprehensive export compliance program throughout the Company. For example, 3D Systems was aware that it needed to maintain an ITAR registration to support the activities of a subset of the Quickparts business that it acquired in 2012, but it did not understand the various ITAR requirements throughout the business, including obtaining ITAR authorizations for ITAR-controlled activities. Additionally, 3D Systems placed foreign-person employees (FPEs) in roles that were likely to receive ITAR-controlled technical data without first obtaining proper authorization.

3D Systems did not incorporate a comprehensive strategy to implement ITAR compliance requirements within its informational technology (IT) system or IT personnel structure. As such, 3D Systems' IT system did not track individual access of ITAR-controlled technical data, and IT personnel lacked overall knowledge of requirements regarding ITAR-controlled activities. For example, a small group of IT personnel at 3D Systems placed restrictions on certain sub-folders containing ITAR-controlled technical data that prevented unauthorized FPE access. However, a different group of IT personnel that was unaware of the protections required for ITAR-controlled technical data changed the permissions to various parent folders, which removed the protections that had previously protected the sub-folders containing ITAR-controlled technical data from unauthorized FPE access. Additionally, 3D Systems gave FPEs in the United States IT roles and responsibilities that provided them the ability to access ITAR-controlled technical data and did not obtain authorization for the export of ITAR-controlled technical data to those FPEs.

3D Systems did not implement a document retention policy with respect to employee email, which were the only records the Company had of the exports of technical data. As such, 3D Systems did not generally maintain records in accordance with ITAR § 122.5, including potential emails containing ITAR-controlled technical data. In some instances, 3D Systems deleted former employees' emails upon their departure or sometime thereafter. Likewise, 3D Systems did not maintain records of employee citizenship and was therefore unable to identify the citizenship of former FPEs.

VIOLATIONS

The ITAR violations addressed in this proposed charging letter are derived from disclosures. In October 2017, the Bureau of Industry and Security served a subpoena on 3D Systems seeking information related to potential export violations under the Export Administration Regulations. Following the receipt of the subpoena, 3D Systems expanded the scope of its internal investigation of Quickparts' handling of export control data, which resulted in the discovery of ITAR violations that the Company disclosed to the Department in three disclosures. The violations involved unauthorized exports, reexports, and retransfers of technical data to Germany, Taiwan, and the PRC; unauthorized exports of technical data to FPEs from India and the United Kingdom; and a failure to maintain records related to FPEs and exports of technical data to Germany and the PRC.

I. Unauthorized Exports of Technical Data to Germany

From December 2014 to October 2018, 3D Systems stored all employee emails, including Quickparts employee's email that contained technical data and attachments, on an unencrypted email server located in Germany, which "mirrored" the email exchange server in the United States to provide a back-up system and improve service for users outside of the United States. Through this mirroring process, all email 3D Systems employees sent or received appeared simultaneously on 3D Systems' U.S. and German email servers. 3D Systems reported that emails on its U.S. and German servers contained technical data controlled under multiple USML Categories, including IV(i), VII(h), VIII(i), XII(f), and XIII(l), for the purpose of providing quotation and manufacturing services for third-party customers and troubleshooting technical issues. As a result, 3D Systems exported without authorization ITAR-controlled technical data to Germany many times when its employees' emails containing technical data appeared on its German servers through the mirroring process.

3D Systems ceased mirroring to the German server of Quickparts' employee emails in December 2017. However, in addition to Quickparts employees' emails, emails from employees in other 3D Systems business units were also mirrored to the unencrypted email server in Germany. This continued until October 2018, when 3D Systems fully decommissioned the German server. 3D Systems currently hosts all employee email exclusively in the United States. At the time, Advanced Manufacturing Group (AMG) was a business unit within 3D Systems. AMG created benchmarking parts for potential 3D Systems customers in connection with the sale of its 3D printers. As part of the benchmarking process, 3D Systems customers provided AMG with technical data to print test parts so that the customers could evaluate the capabilities of 3D Systems' printers. Customers occasionally provided ITAR-controlled technical data to AMG as part of their benchmarking requests, including via email. Therefore, until October 1, 2018, 3D Systems automatically backed-up ITAR-controlled technical data included in emails to the email server located in Germany, resulting in unauthorized exports. Through this process, 3D Systems without authorization exported technical data to Germany on multiple additional occasions.

II. Unauthorized Exports and Retransfers of Technical Data to the PRC

Quickparts' office in Guangzhou City, PRC, assisted Quickparts employees in the United States with obtaining quotations from third-party suppliers in the

PRC and managing projects that proceeded from quotation to production. As part of the quotation process, Quickparts employees in the United States provided requests for quotation (RFQs), which included associated technical data received from Quickparts customers in the United States, to Quickparts employees in the PRC without authorization. The Quickparts employees in the PRC retransferred the technical data to third-party suppliers in the PRC for quotations. Also, Quickparts employees in the United States sent RFQs and associated technical data directly to third-party suppliers in the PRC. In some instances, the third-party suppliers in the PRC used the technical data to manufacture ITAR-controlled defense articles. Quickparts exported without authorization technical data controlled under USML Categories IV(i), XII(f), and XIII(l) 36 times and retransferred without authorization technical data 28 times from December 2015 to December 2017.

As a corrective action, 3D Systems instructed its Quickparts subsidiary in Guangzhou City, PRC and suppliers in China to destroy any technical data they received from Quickparts prior to January 1, 2018, and obtained numerous certifications from these entities that they did so. 3D Systems further instructed the Chinese supplier that had tooling associated with orders produced after January 1, 2016, to destroy the tooling.

Additionally, the technical data that Quickparts handled belonged to its customers. Because Respondent is not the design authority for its customers' technical data, it was unable to independently confirm the jurisdiction and classification of the data. However, as the exporter, Respondent is responsible for obtaining the accurate jurisdiction and classification of technical data from its customers but failed to do so on numerous occasions prior to export. Following its initial disclosure, 3D Systems conducted outreach to customers whose technical data was associated with potential unauthorized exports to the PRC to confirm the jurisdiction and classification of the data. Customer responses evidenced that often the technical data files provided to Quickparts were not marked with accurate jurisdiction and classification information. Where customers provided jurisdiction and classification information, 3D Systems provided it to the Department.

As a corrective action, 3D Systems reported that on March 13, 2018, it implemented formal written work instructions that required employees to obtain an export control certification (ECC) from potential customers documenting the jurisdiction and classification of the customer's technical data. 3D Systems reported that the work instructions provided that no exports of technical data would occur without first obtaining an ECC from the customer and that all transfers of

export-controlled information must first be approved by the Company's Director of Regulatory Compliance.

3D Systems subsequently disclosed, however, that in April 2018 a Quickparts salesperson exported without authorization customer technical data to the PRC for quotation on April 3, 2018, resulting in one additional export to the PRC and one retransfer of technical data in the PRC for a total of 37 unauthorized exports to and 29 unauthorized retransfers in the PRC. The salesperson did not request an ECC from the customer before exporting the customer technical data to the PRC in contravention to 3D Systems' established work instructions.

The written work instructions requiring an ECC were a temporary compliance enhancement for Quickparts that 3D Systems replaced with the Export Controlled Quotations & Projects Portal (ECQPP) once the ECQPP was functional in April 2019. The ECQPP is a secure, auditable portable that handles the storage and transfer of technical data and removed many of the risk associated with the former ECC process that relied heavily on employee adherence to written work instructions. 3D Systems allocated resources to the development and implementation of the ECQPP. Various employees, including those in senior management, were involved in this process. In conjunction with the roll out of the ECQPP, 3D Systems provided training and work instructions regarding the use of the ECQPP. Subsequently, 3D Systems implemented the ECQPP in the AMG business unit.

III. Unauthorized Reexports of Technical Data to Taiwan

Quickparts sometimes used overseas third-party suppliers located in countries other than the PRC as part of the quotation process. For example, between June 2017 and April 2018, Quickparts reexported without authorization ITAR-controlled technical data from the PRC to Taiwan. On three occasions, Quickparts' Guangzhou City office emailed technical data to Idea Development Company in Taiwan. One of these reexports occurred in April 2018 when a Quickparts salesperson exported customer technical data to the PRC for quotation in contravention to 3D Systems' established work instructions. The technical data was controlled under USML Category XIII(1).

IV. Unauthorized Exports of Technical Data to FPEs

3D Systems identified two FPEs (one each from India and the United Kingdom, respectively) whose job functions meant 3D Systems without

authorization repeatedly exported ITAR-controlled technical data to the FPEs. The two FPEs were a Sales Manager and a Manufacturing Manager who reviewed ITAR-controlled documents to provide customers and Quickparts personnel with advice regarding the manufacturing options. These two individuals had substantive interactions with ITAR-controlled technical data whenever a customer's question or production issue was brought to their attention. These activities likely resulted in unauthorized exports of technical data to FPEs listed under several USML Categories.

V. Failure to Maintain ITAR Records

3D Systems failed to produce copies of multiple records related to its ITAR-controlled activities that the Department requested, which limited the scope of the Department's investigation. The full scope of 3D System's unauthorized exports to the PRC and Germany, retransfers within the PRC, and exports to FPEs is unknown because 3D Systems disclosed that it did not maintain complete records for: 1) unauthorized exports of technical data via email; 2) the members of the Quickparts China email distribution list, and thus the number of unauthorized exports and retransfers; 3) the nationality of employees who received technical data from customers; and 4) the individual use of technical data on company servers because IT systems did not record this information.

As a consequence of not having a central system to transfer RFQs and associated ITAR-controlled technical data within 3D Systems, 3D Systems only has records of the exports of ITAR-controlled technical data in employee emails. Historically, 3D Systems had not implemented a document retention policy with respect to employee emails. In some instances, 3D Systems deleted former employee emails upon their departure or sometime thereafter. 3D Systems identified 30 former employees, approximately 16 percent of the total employees potentially involved in exporting technical data, for whom emails were no longer available for review. The failure to retain these employees' emails meant 3D Systems did not maintain complete records of all exports to Germany and the PRC these employees made even though, based on their job duties, they exported technical data to Germany and the PRC.

3D Systems initially identified emails to Quickparts employees in the PRC or the email addressee "QP.ChinaTeam" as exports to "Quickparts China." 3D Systems later explained that QP.ChinaTeam was a dynamic email distribution list, not a mailbox, but it was unable to recreate a complete historical record of all employees on the list dating back to 2015. 3D Systems was only able to identify

17 employees who were members of the email address distribution list between August 2016 and November 21, 2017. As a result, 3D Systems could only identify some but not all exports and retransfers of ITAR-controlled technical data to the PRC for the period of December 9, 2015, to September 28, 2018.

3D Systems also could not identify all exports of ITAR-controlled technical data to FPEs. 3D Systems did not maintain employment documentation for all current and former employees, which resulted in 3D Systems being unable to identify all employees who were foreign persons during some portion of the review period.

In addition to the failure to maintain employee emails, any 3D Systems employee with IT credentials had the ability to locate folders containing ITAR technical data, and all users' credentials permitted them to open and view documents within those folders. 3D Systems identified 65 FPEs who worked for 3D Systems since January 1, 2012, and who could have accessed ITAR-controlled technical data due to their IT systems access credentials. 3D Systems' IT system was not designed to track individual access to technical data. As a result, 3D Systems could not provide records of exports of ITAR-controlled technical data to these FPEs even if, based on their job duties, some exports likely did occur.

3D Systems identified additional business units other than Quickparts and AMG that may have received ITAR-controlled technical data from customers. Specifically, 3D Systems reported that the plastics printer sales team (Plastic Printer Sales) and the software services and technical support teams (Services & Support) on occasion received ITAR-controlled data from potential plastic printer customers and from customers experiencing technical issues with software purchased from 3D Systems. However, while 3D Systems acknowledged that it is likely that the employees of the Plastic Printer Sales and the Services & Support business units had their email mirrored to the German server until October 2018, 3D Systems did not conduct a review for potential ITAR violations because they believed "the risk of controlled data existing in these employees' email was low, conducting a review of this email was unlikely to uncover potential ITAR violations and therefore did not justify such a burdensome review."

RELEVANT ITAR REQUIREMENTS

The relevant period for the alleged conduct is December 9, 2015, through September 28, 2018. The regulations effective as of the relevant period are

described below. Any amendments to the regulations during the relevant period are identified in a footnote.

Part 121 of the ITAR identifies the items that are defense articles, technical data, and defense services pursuant to § 38 of the AECA.

Section 123.1(a) of the ITAR provides that any person who intends to export or to import temporarily a defense article must obtain the approval of the DDTC prior to the export or temporary import, unless the export or temporary import qualifies for an exemption under the provisions of this subchapter.

Section 126.1(a) of the ITAR provides that it is the policy of the United States to deny, among other things, licenses and other approvals for exports and imports of defense articles and defense services, destined for or originating in certain countries, including the PRC.

Section 127.1(a)(1) of the ITAR provides that is unlawful to export or attempt to export from the United States, any defense article or technical data, or to furnish any defense service for which a license or written approval is required by the ITAR without first obtaining the required license or written approval from DDTC.

Section 127.1(a)(2) of the ITAR provides that is unlawful to reexport or retransfer or attempt to reexport or retransfer from any defense article, technical data, or defense service from one foreign end-user, end-use, or destination to another foreign end-user, end-use, or destination for which a license or written approval is required by the ITAR without first obtaining the required license or written approval from DDTC.

Section 127.1(b) of the ITAR provides that it is unlawful to violate any of the terms or conditions of a license or approval from DDTC, any exemption under the ITAR, or any rule or regulation contained in the ITAR.

Section 122.5 of the ITAR requires any person who is required to register to maintain records concerning the manufacture, acquisition, and disposition (to include copies of all documentation on exports using exemptions and applications and licenses and their related documentation) of defense articles, technical data, and provision of defense services. Such records must be in an electronic format using a process or system capable of reproducing all records on paper. All records must be maintained for a period of five years from the date of the transaction.

Such records must be available at all times for inspection and copying by the Directorate of Defense Trade Controls. Upon request, the person maintaining the records must furnish the records required to be maintained in accordance with the ITAR.

CHARGES

Charges 1-37: Unauthorized Exports to the PRC

Respondent violated 22 CFR § 127.1(a)(1) 37 times when it without authorization exported ITAR-controlled technical data, to include technical data related to military optics, imaging technology, naval technologies, technical ceramics, space/satellite-grade materials, composite structures for aviation and space systems, and aerospace-grade fasteners controlled under USML Categories IV(i), XII(f), and XIII(l) at the time of export, to Quickparts FPEs and directly to third-party suppliers in the PRC.

Charges 38-66: Unauthorized Retransfers to Third-Party Suppliers in the PRC

Respondent violated 22 CFR § 127.1(a)(2) 29 times when it without authorization retransferred ITAR-controlled technical data, to include technical data related to military optics, imaging technology, naval technologies, technical ceramics, space/satellite-grade materials, composite structures for aviation and space systems, and aerospace-grade fasteners controlled under USML Categories IV(i), XII(f), and XIII(l) from Quickparts FPEs in the PRC to third-party suppliers in the PRC.

Charges 67-123: Unauthorized Exports to Germany

Respondent violated 22 CFR § 127.1(a)(1) 57 times when it without authorization exported ITAR-controlled technical data, to include technical data related to military optics, imaging technology, naval technologies, technical ceramics, space/satellite-grade materials, composite structures for aviation and space systems, and aerospace-grade fasteners controlled under USML Categories IV(i), VII(h), VIII(i), XII(f), and XIII(l) to an unencrypted backup email server located in Germany.

Charges 124-126: Unauthorized Reexports to Taiwan

Respondent violated 22 CFR § 127.1(a)(2) three (3) times when it without authorization reexported ITAR-controlled technical data controlled under USML Category XIII(l) from the PRC to Taiwan.

Charges 127-128: Unauthorized Exports to FPEs of India and the United Kingdom

Respondent violated 22 CFR § 127.1(a)(1) two (2) times when it without authorization exported ITAR-controlled technical data, to include technical data related to military optics, imaging technology, naval technologies, technical ceramics, space/satellite-grade materials, composite structures for aviation and space systems, and aerospace-grade fasteners to FPEs of India and the United Kingdom located in the United States. The exact USML Categories of the technical data exported is unknown due to a lack of recordkeeping by Respondent.

Charges 129-132: Failure to Maintain and Produce Records

Respondent violated 22 CFR § 127.1(b)(1) four (4) times when it failed to maintain records and produce records related to exports and retransfers in accordance with ITAR § 122.5.

ADMINISTRATIVE PROCEEDINGS

Pursuant to 22 C.F.R. § 128.3(a), administrative proceedings against a respondent are instituted by means of a charging letter for the purpose of obtaining an Order imposing civil administrative sanctions. The Order issued may include an appropriate period of debarment, which shall generally be for a period of three (3) years, but in any event will continue until an application for reinstatement is submitted and approved. Civil penalties, not to exceed \$1,272,251, per violation of 22 U.S.C. § 2778, may be imposed as well, in accordance with 22 U.S.C. § 2778(e) and 22 C.F.R. § 127.10.

A respondent has certain rights in such proceedings as described in 22 C.F.R. Part 128. This is a proposed charging letter. In the event, however, that the Department serves Respondent with a charging letter, the Company is advised of the following:

You are required to answer a charging letter within 30 days after service. If you fail to answer the charging letter, your failure to answer will be taken as an

admission of the truth of the charges and you may be held in default. You are entitled to an oral hearing, if a written demand for one is filed with the answer, or within seven (7) days after service of the answer. You may, if so desired, be represented by counsel of your choosing.

Additionally, in the event that the Company is served with a charging letter, its answer, written demand for oral hearing (if any), and supporting evidence required by 22 C.F.R. § 128.5(b), shall be in duplicate and mailed to the administrative law judge designated by the Department to hear the case at the following address:

USCG, Office of Administrative Law Judges G-CJ,
2100 Second Street, SW
Room 6302
Washington, DC 20593

A copy shall be simultaneously mailed to the Deputy Assistant Secretary for Defense Trade Controls:

Deputy Assistant Secretary for Defense Trade Controls
U.S. Department of State
PM/DDTC
SA-1, 12th Floor
2301 E Street, NW
Washington, DC 20522-0112

If a respondent does not demand an oral hearing, it must transmit within seven (7) days after the service of its answer, the original or photocopies of all correspondence, papers, records, affidavits, and other documentary or written evidence having any bearing upon or connection with the matters in issue.

Please be advised also that charging letters may be amended upon reasonable notice. Furthermore, pursuant to 22 C.F.R. § 128.11, cases may be settled through consent agreements, including after service of a proposed charging letter.

The U.S. government is free to pursue civil, administrative, and/or criminal enforcement for AECA and ITAR violations. The Department of State's decision to pursue one type of enforcement action does not preclude it, or any other department or agency, from pursuing another type of enforcement action.

Sincerely,

Deputy Assistant Secretary
Bureau of Political-Military Affairs